
EXECUTIVE HELP WANTED, INQUIRE WITHIN: THE LEADERSHIP DEARTH IS THE REAL DILEMMA

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Compared with the looming shortage of executive and leadership talent, the Y2K Bug is a mere annoyance. Whether they know it or not, many organizations are about to confront a leadership shortfall—at the very time when the requirements for leadership positions are dramatically increasing. And the succession-management systems of old are woefully inadequate. What is needed is a new approach that is faster, simpler, more accurate, more developmental, and requires a lot less management time and paper.

The Y2K Bug may continue to rattle bankers, computer industry executives, and breathless journalists but not David Whitwam. Neither does “what might happen to the economy or what our competitors might do next,” says Whirlpool Corporation’s chief executive officer (CEO).

What keeps Whitwam awake at night is a deeper and more difficult dilemma. “I worry about whether or not we have the leadership capacity and talent” to lead the company into the next century, he explains. Whirlpool’s CEO is no solitary worrywart. In fact, the problem he identifies is surfacing in most U.S. organizations, and it comes at a most unfortunate time.

On the one hand, traditional succession planning has become a lost art, the casualty of mergers downsizing, reorganizing and reengineering. That may be just as well, for traditional plans and old talent pools are woefully inadequate, given the enormous leadership dilemma at hand. On the other hand, never has there been a greater need to develop internal talent. What’s needed is a new approach to leadership development. And it needs to be put into place quickly, because a time bomb keeps ticking away.

Leaving their organizations better than they found them has always been a primary responsibility of senior management. In recent years, however, more immediate matters—opportunities,

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crises, or the siren sound of Wall Street—too often have led CEOs and boards to shove succession issues into the corporate closet for someone else to address. But executives who further postpone grooming management talent do so at their peril—and that of their companies.

NO DENYING THE DILEMMA

The evidence is overwhelming. McKinsey & Co. surveyed 400 corporate officers and 6,000 executives and concluded, “Many American companies are already suffering a shortage of executive talent.” Three quarters of the corporate officers sampled by the respected New York-based consulting firm said that their companies had “insufficient talent sometimes” or were “chronically talent-short across the board.” Not surprisingly, McKinsey’s research also notes that executive search firm revenues “have grown twice as fast as [the] GDP over the past five years.”

The Association of Search Consultants mirrors that conclusion. Latest available data from the Greenwich, Connecticut, organization show that the number of executive searches jumped 18 percent from 1996 to 1997 alone—across all industries. Cleveland-based Management Recruiters International found that 52.8 percent of the firms it surveyed expected to increase their mid- to upper-level management and professional staffs during the first half of 1999 (latest available data).

Research conducted by my Pittsburgh-based organization, Development Dimensions International, confirms that the size of the problem is enormous. We found that a significant number of companies—especially large, mature organizations—will see 40 to 50 percent of their executives leave during the next five years. For example:

- The U.S. Postal Service discloses that 50 percent of its senior management will be eligible to retire in the next three years;
- Some 40 to 50 percent of senior executives at many of the nation’s largest manufacturers will be eligible to retire by 2003. And while no one can predict how many will actually depart, the odds are that many of them will leave.

Worse, there simply are not enough people prepared to replace those who will depart.

Even the daring, risk-taking venture-capitalist crowd frets. “Without a doubt, the primary issue facing [venture capital] is the shortage of experienced management,” says Steve Abbott, managing director of Venture Strategy Partners in San Francisco. “We’re all constrained by human capital.” The prospects of quickly

easing that constraint are bleak. Notably, general managers and senior executives are in high demand and will continue to be. Such positions will account for 29 percent of new jobs, forecasts the Bureau of Labor Statistics.

Yet there will be fewer individuals available to take their place. The number of persons aged 25 to 44 will drop by more than 15 percent over the next few years—and this age group represents the traditional source of future leaders. “The lowest birthrate year was 1975,” points out Marilyn Moats Kennedy, founder of CareerStrategies in California. “Soon there will be six or seven workers for every ten jobs, and recruiters will complain, ‘We can’t even get a candidate, much less a *decent* candidate.’ ”

Accentuating this shortage, of course, is the allure of retirement—which some will find ironic: While federal statutes have paved the way for executives to work longer, more and more of them are choosing to retire early, thanks to both the economy as a whole and the bull markets of the past few years. Data from the American Academy of Actuaries support the scenario of executives retiring sooner rather than later. So do data and information compiled by Marcia Calhoun, Wachovia Bank’s director of human resources. An emerging trend toward early retirement among managers is clear, she says, “usually between 55 and 58.”

Noteworthy as these numbers may be, by themselves they don’t fully explain the problem. A good part of it is now staring at U.S. business in the mirror. There are five factors to consider.

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1. **Downsizing.** Managements suddenly have become victims of their success. Many of those who not long ago proclaimed how completely they had eliminated “all those superfluous middle managers” now lament the shortage of leadership talent. As helpful as they may have been, episodes of reengineering (or whatever label one wishes to apply) have wiped out not only the trainees but also the training ground itself. The American Management Association (AMA) research, for instance, notes that while middle managers account for between 5 percent and 8 percent of American workers, they have accounted for as much as 25 percent of the U.S. jobs eliminated in recent years, and, middle managers represent 60 percent of outplacement firms’ clients.
2. **Lack of interest.** Not surprisingly, many of the managers who lost their jobs, as well as many who escaped the corporate ax, have lost their appetite and enthusiasm for corporate high command and leadership. In their eyes, the executive suite is a cold and indifferent place to be avoided.

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What many aspiring executives now desire is not just career success but also personal happiness and a less stressful quality of life. *Industry Week* magazine dubs it “downshifting”; it is validated by results of both corporate and media surveys that show a clear trend toward declining promotions and walking away from pressure-packed jobs, their financial rewards notwithstanding.

3. **Appeal of entrepreneurship.** Executives are willing to work hard and put in long hours—on their own terms, that is. The lure of running “your own show” is attracting countless young leaders who once would have raced up the ladder of a blue-chip Corporate U. The chance “to grow something that has my handprint on it from the ground up” is compelling, says executive recruiter and adviser John R. O’Neil of the Center for Leadership Renewal, San Francisco. The dramatic and well-documented rise of small but high-potential companies testifies to this trend, which has been fueled in part by the availability of venture capital.
4. **A lack of succession planning.** In many organizations, succession planning is not even a consideration. The once reliable “farm club” made up of “assistant-to” grooming positions is long gone. Amid cost cutting and job slashing, top management never considered future needs. Worse, the middle managers who have survived rarely have the breadth of experience that high-level positions demand. Consider UNUM Corporation, a Portland, Maine, insurance company. It sliced whole layers of management, and now wishes it had been more prudent. “A lot of companies are recognizing that middle management was a lot more important than we thought it was,” observes Tammi Snow, manager of training.
5. **Niche-oriented society.** Our ability to define ever more narrow market niches and demographic slices has been a boon for marketers, but it also has produced a troublesome side effect: Hiring and human resources managers alike are now inclined to typecast and pigeonhole managerial talent, to the point that those who have toiled in one business sector may not even be considered for a post in another. “Once in chemicals, always in chemicals,” or so it appears.

All told, corporations find themselves confronting a much different and more demanding organizational landscape as 2000 looms. That alone is perplexing enough. In addition, though, we also have changed the nature of work itself.

Along with wealth and opportunity, the economy has generated a huge demand for high-level executives, points out Tom Zay, managing director of Boyden/Zay & Co., "but there's not enough [talent] to fill the demand." The Bureau of Labor Statistics reports, for example, that the number of employed persons rose by 28 percent between 1983 and 1997. At the same time, the number of executive, administrative, and managerial jobs rose a staggering 71 percent.

A Key Question for HR

Ask your human resources department to give you a report on projected retirements and executive job growth in your organization, and then assume reality will be worse than the projections. While federal statutes make it possible for persons at all levels to stay in their jobs longer, the national trend suggests that managers and executives are retiring earlier. This trend is accelerating because the stock market's continued strong performance has made a financially secure retirement very attainable for many high achieving persons. In addition, many part-time, interim, and less-stressful full-time jobs are available to supplement retirement income. And, many managers in their fifties now look forward to testing their skills in other fields.

In 1970, 83 percent of 55- to 64-year-olds were working. By 1990, that figure had slipped to 75 percent. By next year—2000—it is projected that only 68 percent of this age group will be working.

Consider these questions:

- ☐ Have you experienced a long-term vacancy in a key leadership position in the past year?
- ☐ Have you had to compromise on leadership quality in filling positions?
- ☐ What percentage of your current leaders would you select if you had to do it over again?
- ☐ Will you have sufficient bench strength to staff your growth plans?
- ☐ What percentage of your senior managers will be eligible to retire within the next three to five years?

THE BAR HAS BEEN RAISED

A dwindling supply of talent is only part of the problem, however. A consequence of our increasingly competitive and fast-moving society is that leadership positions are more demanding than ever. In today's flattened and intensively competitive organizations, the normal competencies now required for success at senior levels call for managements and individuals who can:

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- Shape and articulate vision and mission,
- Build business relationships and partnerships,
- Serve as effective change agents,
- Develop and articulate new business strategies—and guide their execution,
- Grasp technology, and seize marketing and entrepreneurial opportunities, and
- Deal with persons and issues throughout the world

To be sure, corporate America isn't impotent. As a preliminary step, an organization must determine the extent of the problem. First, define the executive roles and associated competencies needed to reach ultimate business objectives and then conduct a census of who's available within the organization. However, old methods simply won't work, because most companies don't have the tools needed to fairly and accurately identify both current shining stars and unsung individuals who have quietly turned in stellar performances in operations around the world. Indeed, companies that have used assessment centers and multiple-perspective instruments (360-degree evaluation) often have found more latent talent than they imagined.

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THE SHORT TERM: DELAY AND SEARCH

Armed with this information, organizations have three options for building the leadership corps they need. Two are short-term, the other long-term. Odds are, a combination of the three will be required. Whatever options are selected, action needs to begin immediately, before the anticipated exodus of executives turns into a stampede.

1. **Make it more attractive for key executives and managers to stay.** The most expedient action is to keep current talent from retiring. As attractive as it may appear, retirement remains a difficult decision for most. Not every executive is ready to hang up his or her skills. Indeed, odds are high that many will want to continue working in some capacity, at least on a part-time basis. Letting them deliver invaluable assistance, advice, and counsel to the enterprise they know best makes sense; it also preempts the risk of them helping competitors. Reshaping jobs, negotiating part-time consulting assignments, and revising travel and vacation policies are among the tactics management can leverage.
2. **Hire talent from the outside—more effectively.** At first blush, raiding other companies looks like a consummate quick fix. Besides, fresh ideas typically arrive with new

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talent groomed elsewhere. But hiring outsiders is no panacea, as high-profile failures of senior executives at companies like AT&T and Sunbeam affirm. Indeed, a 1997 survey of five organizations by the Corporate Leadership Council found about a 50 percent failure rate of "extremely sourced" individuals. Other studies indicate a 40 percent failure rate. Given the cost of executive search, the cost of organization turmoil, and the ramp-up time required of new managers, such waste cannot be tolerated.

More thoroughly assessing outside talent is an obvious way to improve recruiting results. Organizations that have upgraded their evaluation technology using modern assessment centers and other methodologies have shown dynamic improvement in "hit rates." Another quick fix is to recruit from a broader base, such as women executives and overseas talent.

Overall, though, raiding other enterprises to ease the leadership dearth is a stopgap alternative at best. As more organizations face the challenge and try the same solutions, the costs of recruiting seasoned executives will rise dramatically.

A Day-and-a-Half in the Life of an Assessment Center

Today's assessment center is a far cry from the concept developed nearly 50 years ago by AT&T. While that company used middle managers as assessors, centers today typically use professionals from outside the corporation, aided by computer-based technology that speeds and enhances the process.

Assessment centers help define specific individual development needs as they help organizations estimate how far and fast candidates will progress. Assessment centers offer a clear advantage because they look beyond resumes and current performance into individuals' potential to help companies meet future objectives. Moreover, assessment centers can fairly and accurately compare the potential of employees in corporate locations around the world, allowing organizations to fully tap all of their talents.

Perhaps most important, assessment centers allow participants to "try on" senior roles, accountabilities, and activities in a relatively risk-free, simulated environment. Participants usually find that these "stretch" experiences deliver important self-insights and give them realistic job previews. Here's an example, as seen through the eyes of a participating manager:

If you're being perfectly honest with yourself, you're a little nervous—perhaps more than a little. You've gotten a thick folder of information about ABC Corporation, your hypothetical company. You've read that you're the

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new vice president, and it's your first day on the job. The CEO is travelling and is unavailable for the next few days. It's 7:30 AM. You face a stack of memos in your in-basket, a dizzying collection of E-mails, and voice mails that demand replies. And you have a very full schedule.

Welcome to the deep end of the pool.

You jump in, establishing priorities for everything and organizing your time. You meet with Dana Wright, a peer who's upset about another employee—and who once held the job you hold now.

You get three more E-mails.

You meet with Chris Jackson, who's been late on filing for Federal Communications Commission (FCC) compliance for your company's make-or-break new product. You have a working lunch to begin creating your strategic plan. You meet with Ronnie Hightower, whose company could be a profitable strategic partner, but which now wants to buy your company's technology outright.

You go over new in-basket items.

You meet with an irate customer who's ready to jump ship. You do a live interview with a local TV reporter who's heard rumors that health hazards might be linked to your products and is hunting for an exposé. You leave the office after a long day and that night prepare for your presentation.

You arrive early the next morning to add some final touches to your strategic plan, which you will present to a group of vice presidents. And you review your speech, which you hope will motivate and inspire a heretofore, lackluster workforce.

Your presentation and speech, except for a few minor glitches, go better than expected. It's around 1 PM on the second day. The whirlwind is over. You made it through.

It's been a demanding 36 hours. You've solved strategic problems, tested your vision, and addressed vendor problems, personnel matters, thorny diversity issues, and professional jealousies. You've smoothed ruffled feathers, averted disasters, built trust, demonstrated leadership, delegated and established a strategic direction. You feel tired but good.

The deep end of the pool isn't so bad, after all.

THE LONG TERM: ACCELERATION POOLS

Organizations, then, will need to grow their own talent if they are to definitively address the leadership dilemma. At the same time, organizations are courting failure if they think they can simply dust off traditional succession-planning initiatives or refill standard talent pools. In the face of today's challenges, these are anemic alternatives, at best.

A far better strategy is developing an “acceleration pool” made up of leadership candidates from a range of leadership levels. Given sufficient resources and attention, an acceleration pool

provides the leverage to both respond to the immediate talent gap and grow outstanding talent for the future.

The acceleration pool system is a process by which an organization assures its key positions will be filled with qualified candidates. It succeeds by establishing a pool of individuals who have been selected for their basic skills and then developed through training and job experiences to maximize their potential contributions to the organization at large and not to a specific position.

The acceleration pool works much like a championship athletic team that first finds the best available athletes, *then* determines where to fit them in the lineup. This is a startling change from those heady days when corporate America deluded itself into thinking it could predict an individual's career path. The record from that era is dismal, so there's no sense repeating the mistake.

The acceleration pool system differs from traditional succession planning in many other ways, as well:

- ❑ The system rests on the premise that while everyone gets developed, only a company's best and brightest qualify for accelerated development. In the acceleration pool, they receive stretch assignments, special developmental experiences, and accelerated growth and educational opportunities. They also go through an updated and redesigned assessment center, staffed with outside professionals, and receive expert feedback and coaching.
- ❑ Acceleration pool candidates are prepared for assignments with coaching and clear job and learning accountabilities. Traditional replacement-planning assignments, by comparison, delivered only unplanned learning and had little structure; the coaching they offered came mainly from the HR department. Task force and other special assignments are fully leveraged to speed learning in an acceleration pool.
- ❑ Movement in the acceleration pool is based on performance and achieved development. Candidates must make effective use of each assignment and achieve stretch performance goals. They cannot just serve time. Job assignment decisions are made only relative to the next opportunity—they're *not* planned two or three positions out.
- ❑ The acceleration pool offers no presumption of upward movement or implicit guarantee of promotion—as was typically the case with succession planning and traditional talent pools.
- ❑ At regular intervals, say every three or six months, individuals in the pool are reviewed relative to their career development needs at that moment, personal interests, and the company's management needs. One such review, for

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example, might conclude that a lateral move would be in everyone's best interests. Ongoing evaluation ensures that individuals will be stretched to the extent of their capabilities—all without the paperwork nightmares that once brought companies to their knees.

- ❑ Individuals can be in an acceleration pool from 1 to 15 years, depending on when they enter, their performance, and the urgency of the organization's needs; also, the door is always opened for late bloomers. A sophisticated performance- and competency-based selection system assists with decisions about entry—and departure. By comparison, traditional talent pools for management trainees accepted members only at the bottom and dismissed them once they joined the ranks of middle management.

To illustrate how the acceleration pool system works, let's consider a midsized company of, say, 3,500 employees. It has one acceleration pool consisting of 10 percent of all supervisors and managers. It is aimed at grooming people for top-management positions. A large organization might have three pools—one at the supervisory level, a second for middle management, and a third for individuals poised to join the ranks of executive management.

Not all members of senior management will come from the acceleration pool, of course. Most organizations still plan to get 15 to 20 percent from outside their ranks in order to infuse management with new ideas and perspectives.

Fresh Assumptions

Underlying assumptions about businesses today further distinguish the acceleration pool:

- ❑ Business strategy, organizational structures, and jobs themselves change frequently.
- ❑ Jobs are fluid, marked by constant changes in responsibilities and reporting arrangements.
- ❑ Individuals can move both horizontally and vertically.
- ❑ Development can include assignments outside the organization (with suppliers or customers, for instance).
- ❑ Since it is impossible to plan future jobs with any accuracy, the focus shifts to the next assignment and development actions.

Traditional succession planning, by comparison, counted on such assumptions as consistent business strategies, stable organization structures, fixed jobs, and vertical movement.

NO TURNING BACK

Corporations can neither hunt future talent as they once did, nor relegate action to the back burner, as many have done in recent years. They would do well, in fact, to take a cue from General Electric Co.'s Jack Welch, who spends 50 percent of his time on the development of his corporation's future leaders. And if tending to leadership development means momentarily turning a blind eye to Wall Street, so be it. In the long term, investors will praise organizations for that act.

Organizations that don't and persist in maintaining the status quo court more than short-lived difficulties. They stand a good chance of seeing their organizations trampled and being forced to accept a fourth option posed by the leadership dilemma: Going out of business. ♦